

Management Discussion and Analysis

For the Second Quarter ended June 30, 2007

(This report discusses principal changes in the audited consolidated financial statement for the second quarter ended June 30, 2007)

Movement of Money Market and Capital Market

In the second quarter of 2007, the Bank of Thailand (BoT), in attempt to stimulate domestic economy, lowered the policy rate (Repo 1-day) twice from 4.50% to 4.00% and from 4.00% to 3.50% respectively.

The SET index significantly improved from the last quarter ending at 776.79 points, increased by 103.08 points. In terms of the trading activity, the average daily turnover totaled 15,112.76 million baht, increased by 3,312.68 million baht mainly due to the increase in trading volume from foreign sector following an easing political turmoil and the national election which is expected to take place within this year.

The Management Discussion and Analysis compares operating performance for the second quarter of 2007 with those of the second quarter of 2006. Meanwhile, financial position is a comparison between the financial positions as of June 30, 2007 and March 31, 2007.

Operating Results

For the second quarter of 2007, the Bank and its subsidiaries reported a net profit of 437.79 million baht compared with 351.17 million baht, increased by 86.62 million baht (24.7% YoY) mainly contributed by the increase in the interest and dividend income of 32.6% from the continuous growth of hire purchase business and the improvement in loan spread from 3.2% to 3.6%. Therefore, the net interest and dividend income increased by 26.2%. Meanwhile, fees and service income increased by 50.2% from bancassurance, asset management, and investment banking businesses, leading to the increase in non-interest income of 12.1%.

As for performance of the first half of 2007, the Bank and its subsidiaries reported a net profit of 793.63 million baht decreased by 101.54 million baht or 11.3% compared with the net profit for the first half of 2006 amounting 895.17 million baht. The lowered net profit was mainly resulted from the decrease in gain on investment and brokerage fee income, which were affected by the significant difference of the capital market conditions between the comparable periods, in which the capital market activities have been slowdown during the first half of 2007, compared with bullish capital market in the same period of 2006. By excluding gain on investment, the Bank and subsidiaries' net income (including lowered brokerage fee income of 27.5% YoY) increased by 102.69 million baht (4.3% YoY).

Diluted earnings per share for the second quarter and the first half of 2007 are 0.54 baht and 0.96 baht respectively compared with those in the same period of 0.42 baht and 1.10 baht respectively. The average return on equity (ROAE) was 14.2 % up from 11.0%.

Net Interest and Dividend Income

Net interest and dividend income for the second quarter of 2007 was 884.68 million baht, increased by 183.68 million baht (26.2% YoY) mainly contributed by increase in interest and dividend income of 462.81 million baht (32.6% YoY). Meanwhile, the increase in interest expenses of 279.13 million baht (38.8% YoY), was mainly resulted from the increase in interest expense on deposits and interest expense on short-term borrowings by 49.90 million baht (8.4% YoY) and 223.21 million baht (617.6% YoY) respectively. The growth in interest expense was slightly higher than the growth in interest and dividend income, mainly due to the increase in deposit portfolio to support strong growth in loan business.

In comparison with the first quarter of 2007, cost of fund declined from 4.7% to 4.5% following the decline in market interest rate. The Bank managed to maintain loan yield by increasing the proportion of used-car high yield in the hire purchase portfolio. In effect, loan spread improved from 3.0% to 3.6%.

Total net interest and dividend income after bad debt and doubtful accounts amounted 852.63 million baht, increased by 140.31 million baht (19.7% YoY) with the amount of bad debts and doubtful accounts of 32.05 million baht, increased by 43.37 million baht. Meanwhile, the ratio of net interest and dividend income to total income increased from 60.6% to 63.4% YoY.

Non-interest Income

In this quarter, the bank and its subsidiaries recorded non-interest income of 510.74 million baht, increased by 55.23 million baht (12.1% YoY), mainly resulted from the increase in the fees and services income in the areas of bancassurance, asset management and investment banking from 190.81 million baht to 286.50 million baht, or 95.69 million baht (50.2% YoY). In addition, gain from investment from 16.66 million baht to 36.82 million baht, increased by 20.16 million baht (121.1% YoY).

Non-interest Expenses

Non-interest expenses in this quarter were 766.23 million baht, increased by 73.45 million baht (10.6% YoY) mainly resulted from the increase in personnel expense, which corresponded to the level of income, and the increase in premise and equipment expenses arising from the investment for new branch opening.

Corporate Income Tax

For the second quarter of 2007, the corporate income tax was 159.36 million baht, equivalent to the effective tax rate of 26.7%.

Financial Status

Assets

The Bank and its subsidiaries' total assets as of June 30, 2007 were 104,047.09 million baht, decreased by 1,043.67 million baht (1.0% QoQ) mainly due to a decrease in interbank and money market items by 1,219.40 million baht (38.8% QoQ) and securities purchased under resale agreements by 2,420.00 million baht (16.1% QoQ)

Liabilities

Total liabilities as of June 30, 2007 were 92,341.08 million baht, increased by 271.89 million baht (0.3% QoQ) mainly due to the issuance of long-term debenture; 3-year debenture of 3,000 million baht with interest rate of 3.75%, and 5-year debenture of 1,000 million baht with interest rate of 4.04%. These new debentures were issued to replace the 5-year long-term debenture of 4,800.00 million baht with average interest rate of 4.45%, which will mature during the second half of this year.

Shareholders' Equity

Shareholder's equity and as of June 30, 2007 were 11,706.02 million baht decreased from 13,021.57 million baht (10.1% QoQ) as the Bank paid annual dividends at 3 baht per preferred share and 2 baht per common share in May 2007. Total dividend payment was 1,633.23 million baht with dividend payout ratio of 105.7 resulting in unappropriated retained earnings of 2,873.66 million baht decreasing from 4,070.92 million baht (29.4% QoQ). Book value per share (BVPS) as of June 30, 2007 was 16.10 baht, down from 17.91 baht as of March 31, 2007

Business Segment Performance

(1) Banking Business

Loans

Total consolidated loans and receivables were 80,742.60 million baht, increased by 2,451.88 million baht (3.1% QoQ) mainly contributed by strong growth in hire purchase business since the second quarter of 2006.

The composition of loan portfolio was 18.5% of corporate loans, 76.6% of retail loans, and 4.9% of other loans.

Corporate lending portfolio of the Bank and its subsidiaries totaled 14,928.45 million baht, increased by 475.18 million baht (3.3% QoQ), mainly from an increase in public utilities and services sector of 501.67 million baht (25.5% QoQ), ending at 2,469.13 million baht.

Retail lending portfolio consisted of 96.8% car, motorcycle, and other hire purchase and 3.2% mortgage loans. The outstanding hire purchase loans totaled 59,917.91 million baht, increased by 2,152.83 million baht (3.7% QoQ). Car new business in this quarter amounted

8,155.70 million baht, increased by 1,876.30 million baht (29.9% YoY). The domestic car sales for the first half of 2007 was reported at 292,514 units down from 334,619 units (12.6% YoY), resulting in a dramatic increase of penetration rate from 5.7% to 10.8% YoY.

Deposit and Short-Term Borrowings

Total deposit and short-term borrowings totaled 76,830.37 million baht, down by 4,729.76 million baht (5.8% QoQ). The portion of saving accounts and current accounts contributed to 4.8% of total deposits and short-term borrowings, down from 11.0% as of March 31, 2007.

The ratio of loans to deposits and short-term borrowings increased from 96.0% to 105.1% QoQ, mainly resulted from the increased portion in long-term funding in supporting strong loan growth in the future.

Non-Performing Loans (NPLs) and Loan Loss Provision

Non-performing loans (NPLs) to total loans ratio was 4.5%, slightly decreased from 4.6% at the end of the previous year. Meanwhile, the NPL to total retail loans was 2.4%, and NPL to total commercial loans was 8.1%, in which the entire NPL amount was occurred during the economic crisis. NPLs of the Bank and its subsidiaries were 3,644.96 million baht, increased by 71.04 million baht (2.0% QoQ), which is considered normal following strong loan growth.

The Bank and its subsidiaries' allowance for doubtful accounts and revaluation allowance for debt restructured totaled 2,784.51 million baht, the ratio of the allowance to NPLs was 76.4%. The Bank's allowance was 2,455.24 million baht, consisting of specific reserve of 2,302.77 million baht and general reserve of 152.47 million baht. The Bank's allowance exceeded the minimum requirement of the Bank of Thailand (BoT), which was 2,141.53 million baht. Moreover, the Bank and its subsidiaries' allowance has fully complied with the new provisioning standard (IAS 39), which was ahead of the BoT's requirement for fully compliance by December 2007.

(2) Securities Business

At the end of the second quarter, the SET index surged from 673.71 to 776.79 points with average daily trading turnover increased from 11,800.08 to 15,112.76 million baht YoY following the improvement in economic condition and political situation.

For the second quarter of 2007, TISCO Securities' average market share decreased from 3.5% to 3.0%, compared to the second quarter of 2006. Meanwhile, the average daily turnover of TISCO Securities equaled 909.75 million baht, decreased from 1,071.82 million baht (15.1% YoY) resulting in a decline of brokerage fee by 23.51 million baht, to 131.26 million baht (15.2% YoY).

Fee income from investment banking continuously improved after realigning business strategy to be in line with current capital market situation. The investment banking fee amounted 2.06 million baht, increased by 0.56 million baht (37.3% YoY).

(3) Asset Management Business

The total asset under management of TISCO Asset Management Co., Ltd. was 95,586.62 million baht, increased by 6,648.45 million baht (7.5% QoQ). The composition of total asset under management was 60.7% from provident fund, 27.5% from private fund, and 11.8% from mutual

fund. The company extensively offered wide range of products such as LTF, Short Term Fixed Income Fund, Dividend Long Term Equity Fund, as well as foreign investment funds.

The fee from asset management was 122.42 million baht, increased from the first quarter of 2007 by 45.36 million baht (58.9% QoQ) following the increase of net asset value under management and improvement in market pricing.

Total market share of TISCO Asset Management Co., Ltd. as of June 2007 was 5.1%, ranking 8th in the market. The market share of provident fund and private fund was 13.8% and 16.5%, ranked 2nd in the market for both fund types. For mutual fund, the market share was 0.9%, ranked 17th in the market.

Risk Management

In the second quarter of 2007, the integrated risk capital stood at 6,917.43 million Baht, increased by 554.83 million Baht or 8.72% from the previous quarter. However, the capital surplus remained strong at 38.93% compared with total capital of 11,706.02 million Baht, reflecting a continuously robust capital position to support future business expansion.

Compared to the first quarter of 2007, the market risk capital increased by 156.81 million Baht from 1,998.09 million Baht to 2,154.89 million Baht, primarily resulted from increasing equity portfolio following the strong growth of SET Index during the quarter. The difference in the duration of assets and liabilities continued to decrease from 8 to 7 months as a result of increased average duration of liabilities from the longer maturity profile of deposit portfolio and the issuance of long-term debentures. Meanwhile, the credit risk capital rose by 383.82 million Baht to 4,027.73 million Baht following the expansion of hire purchase business in the high yield segment of used cars.

In terms of regulatory capital requirement of Bank and Securities companies, the regulatory capital adequacy ratio (BIS ratio) dropped from 12.07% to 11.56% following hire purchase loan portfolio expansion. In addition, regulatory capital decreased as a result of annual dividend payment of TISCO Bank . Nevertheless, the capital adequacy remained higher than the minimum of 8.50% as required by the Bank of Thailand. Meanwhile, the net capital rule (NCR) of TISCO Securities Co., Ltd. remained strong at 129.83%, greatly higher than the minimum requirement ratio by the SEC of 7.0%.

Supplemental explanation on changing significant accounting policies

1. Investment in subsidiaries

The company would like to report on the effect of the change in accounting for investment in subsidiary as follows:

In the three-month period ended March 31, 2007, the company changed its accounting policy regarding investment in a subsidiary so that the separate financial statement, which formerly reported investment using the equity method, now reports using the cost method. This is to comply with TAS 44. Thus the company restated its financial statement by using the historical cost as the cost of the investment in a subsidiary of the separate financial statement. This adjustment caused the net income on the separate financial statement to differ from the reported in the consolidated financial statement. The company had net income of 437.79 million baht for the three-month period ended June 30, 2007, according to the consolidated financial statement. However, the separate financial statement over the same period showed a net income of 281.99 million baht with the additional information as follows:

1. Net income for the three-month period ended June 30, 2007 and June 30, 2006 decreased by 155.79 million baht and 176.14 million baht (That is, decreased by 0.21 baht per share and 0.24 baht per share) respectively, since the separate financial statement did not include any share of profits from investment.

2. The separate balance sheet for the quarter ended June 30, 2007 showed an investment in subsidiary decreased by 500.71 million baht and the retained earnings increased by 430.63 million baht. The cumulative effect of the accounting policy has been presented under the heading of “Cumulative effect of the change in accounting policy for investments in subsidiaries in the separate financial statements” in the statement of changes in shareholders’ equity.

The change of accounting policy did not have any effect on the consolidated financial statements or business fundamentals.

2. Commissions and direct expenses of the hire purchase business

The Bank has changed its accounting method for recognition of initial commissions and direct expenses arising in respect of hire purchase contracts originating from 1 January 2007, from recording them as expenses when they occur to amortizing them by the effective interest rate method, and deducting them from interest income over the installment period. Unearned interest income is stated net of commissions and direct expenses incurred at the initiation of the hire purchase contract. The effects to the financial statements are summarized as follows;

1. Profit and loss statement states the decrease in hire purchase and financial lease income and fees and service expenses, equivalent to the amount of realized commissions and direct expenses.

2. Balance sheet states the increase in loans and receivable, equivalent to deferred commissions and direct expenses.

Table 1: Consolidated Revenue Structure

Type of Revenue	2Q07		2Q06		Change
	Amount (Bt. million)	%	Amount (Bt. Million)	%	% YoY
Interest and dividend income					
Interest on loans	310.66	22.3	223.96	19.4	38.7
Interest on interbank and money market items.	198.55	14.2	152.74	13.2	30.0
Hire purchase and financial lease income	1,260.23	90.3	968.11	83.7	30.2
Investments	112.89	8.1	74.71	6.5	51.1
Total interest and dividend income	1,882.33	134.9	1,419.52	122.7	32.6
Interest expenses	997.65	71.5	718.52	62.1	38.8
Net interest and dividend income	884.68	63.4	701.00	60.6	26.2
Non-interest income					
Brokerage Fees	131.26	9.4	154.77	13.4	(15.2)
Gain on securities	36.82	2.6	16.66	1.4	121.1
Fees and services income	286.50	20.5	190.81	16.5	50.2
Others	56.16	4.0	93.27	8.1	(39.8)
Total non-interest income	510.74	36.6	455.51	39.4	12.1
Total income before bad debts and doubtful accounts	1,395.42	100.0	1,156.51	100.0	20.7
Bad debt and doubtful accounts	(32.05)		11.32		
Bad debt written back revenue					
Total income – net of bad debts and doubtful accounts	1,363.37		1,167.83		
Non-interest expenses	(766.23)		(692.78)		
Profit before income tax and minority interest	597.15		475.05		
Corporate income tax	(159.36)		(117.89)		
Minority interest in net earnings in subsidiary company	-		(6.00)		
Net Profit	437.79		351.17		

Table 2: Interest spread

%	2Q07	1Q07	2Q06
Yield on Loans	7.9	7.8	7.4
Cost of fund	4.3	4.8	4.2
Loan spread	3.6	3.0	3.2

Table 3: Assets Breakdown

Assets	June 30, 2007		March 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Cash	322.14	0.3	251.90	0.2	27.9
Interbank and Money Market Items	1,920.06	1.8	3,139.47	3.0	(38.8)
Securities purchased under resale agreements	12,580.00	12.1	15,000.00	14.4	(16.1)
Fixed income	1,010.32	1.0	1,321.49	1.3	(23.5)
Equity	4,257.53	4.1	4,088.43	3.9	4.1
Corporate Loans	14,928.45	14.3	14,453.28	13.9	3.3
Retail Loans	61,873.91	59.5	59,765.63	57.4	3.5
Other Loans	3,940.24	3.8	4,071.82	3.9	(3.2)
Allowance for doubtful accounts and for loss on debt restructuring	(2,784.51)	(2.7)	(2,807.54)	(2.7)	(0.8)
Other Assets	5,998.95	5.8	5,806.30	5.6	3.3
Total – The Bank and Subsidiaries	104,047.10	100.0	105,090.76	100.0	(1.0)

Table 4: Liabilities Breakdown by Area

Type of Borrowings	June 30, 2007		March 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Deposits and short-term borrowings	76,830.37	83.2	81,560.13	88.6	(5.8)
Interbank and money market items	3,556.91	3.9	3,044.21	3.3	16.8
Long-term borrowings	8,162.56	8.8	3,992.69	4.3	104.4
Others	3,791.24	4.1	3,472.16	3.8	9.2
Total – The Bank and Subsidiaries	92,341.08	100.0	92,069.19	100.0	0.3

Table 5: Loans and Receivables Breakdown

Type of Business	June 30, 2007		March 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Manufacturing and commerce	7,496.80	9.3	7,487.23	9.6	0.1
Real estate and construction	4,858.63	6.0	4,891.54	6.2	(0.7)
Public utilities and services.	2,469.13	3.1	1,967.45	2.5	25.5
Agriculture and mining.	103.89	0.1	107,0563239	0.1	(3.0)
Commercial Lending	14,928.45	18.5	14,453.28	18.5	3.3
Hire purchase	59,917.91	74.2	57,765.08	73.8	3.7
Housing	1,955.99	2.4	2,000.55	2.6	(2.2)
Retail Lending	61,873.91	76.6	59,765.63	76.3	3.5
Others	3,940.24	4.9	4,071.82	5.2	(3.2)
Total – The Bank and Subsidiaries	80,742.60	100.0	78,290.72	100.0	3.1

Table 6: Deposits Structure

Type of Deposits	June 30, 2007		March 31, 2006		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Current accounts	1,745.41	2.3	5,629.38	6.9	(69.0)
Saving accounts	1,980.19	2.6	3,305.97	4.1	(40.1)
Fixed accounts	36,274.56	47.2	48,542.81	59.5	(25.3)
Negotiate certificate deposit	797.14	1.0	851.95	1.0	(6.4)
Promissory notes and Bill of exchange	2,798.43	3.6	3,454.61	4.2	(19.0)
Total deposits	43,595.74	56.7	61,784.73	75.8	(29.4)
Short-term borrowings	33,234.63	43.3	19,775.40	24.2	68.1
Total	76,830.37	100.0	81,560.13	100.0	(5.8)

Table 7: NPL Breakdown by Area

Type of Business	June 30, 2007			March 31, 2006			% Change
	% NPL	Amount (Bt. million)	%	% NPL	Amount (Bt. million)	%	
Manufacturing and commerce	6.4	476.08	13.1	6.5	487.94	13.7	(2.4)
Real estate and construction	14.6	711.68	19.5	16.7	817.14	22.9	(12.9)
Public utilities and services.	1.0	25.37	0.7	1.2	24.09	0.7	5.3
Agriculture and mining	0.4	0.45	0.0	0.8	0.83	0.0	(45.9)
Commercial Lending	8.1	1,213.58	33.3	9.2	1,330.00	37.2	(8.8)
Hire purchase	2.1	1,264.10	34.7	1.8	1,050.85	29.4	20.3
Housing	11.9	231.98	6.4	12.6	251.37	7.0	(7.7)
Retail Lending	2.4	1,496.08	41.0	2.2	1,302.22	36.4	14.9
Others	18.8	935.30	25.7	19.0	941.69	26.3	(0.7)
Total – The Bank and Subsidiaries	4.5	3,644.96	100.0	4.6	3,573.92	100.0	2.0

Table 8: Assets under Management Breakdown by Type of Fund

Type of Fund	June 30, 2007		March 31, 2007		% Change
	Amount (Bt. million)	%	Amount (Bt. million)	%	
Provident Fund	58,038.79	60.7	55,227.98	62.1	5.1
Private Fund	26,272.82	27.5	25,599.03	28.8	2.6
Mutual Fund	11,275.01	11.8	8,111.15	9.1	39.0
Total	95,586.62	100.0	88,938.17	100.0	7.5

Table 9: Average Duration Mismatch of Assets and Liabilities and Its Impact

Type of Fund	Duration (years)		1-Y Net interest income change to 1% interest rate increase	
	2Q07	1Q07	2Q07	1Q07
	Assets	1.23	1.18	406.73
Liabilities	0.65	0.51	(500.26)	(517.71)
Net Gap	0.58	0.67	(93.53)	(89.43)